

REPORT TO THE TWENTY-SECOND LEGISLATURE
STATE OF HAWAII
REGULAR SESSION OF 2004

Expenditure Report
Hawaii Convention Center
FY 02-03 and FY 03-04
In response to Act 200, SLH 2003



Prepared by:
Hawaii Tourism Authority
December 18, 2003

This expenditure report is prepared pursuant to Act 200, SLH 2003, which requests a detailed report for expenditures comparing budget appropriations to actual expenditures for FY 02-03 and FY 03-04 (four months actual, eight months forecasted) with accompanying explanations for variances for Hawaii Convention Center operations.

Hawaii Convention Center/SMG
Analysis of Operating Revenues and Expenses
Fiscal Year Ending June 30, 2003

	Actual FY 2003		Budget FY 2003		Variance	% Change
Operating Revenues:						
Food and Beverage	\$ 5,128,604	68.3%	\$ 5,411,120	63.3%	\$ (282,516)	-5.2%
Rental Income	1,309,563	17.5%	1,740,562	20.4%	(430,999)	-24.8%
Event Revenue	1,014,357	13.5%	1,363,886	16.0%	(349,529)	-25.6%
Other	50,928	0.7%	27,728	0.3%	23,200	83.7%
Total Operating Revenues	7,503,452		8,543,296		(1,039,844)	-12.2%
Cost of Goods Sold	1,010,959	19.7%	1,184,547	21.9%	(173,588)	-14.7%
Direct F&B Expenses	2,166,736	42.2%	2,180,093	40.3%	(13,357)	-0.6%
Gross Profit	4,325,757	57.7%	5,178,656	60.6%	(852,899)	-16.5%
Operating Expenses:						
Salaries & Wages	3,125,122	41.6%	3,608,040	42.2%	(482,918)	-13.4%
Payroll Taxes & benefits	879,003	11.7%	1,015,142	11.9%	(136,139)	-13.4%
Contract Labor	979,779	13.1%	1,049,431	12.3%	(69,652)	-6.6%
Travel & Entertainment	51,293	0.7%	91,780	1.1%	(40,487)	-44.1%
Due & Subscriptions	8,998	0.1%	15,630	0.2%	(6,632)	-42.4%
Employee Training/Relations	23,280	0.3%	23,400	0.3%	(120)	-0.5%
Computer Expense	38,171	0.5%	27,788	0.3%	10,383	37.4%
Legal/Professional Fees	62,305	0.8%	45,100	0.5%	17,205	38.1%
Advertising & Promotion	30,085	0.4%	87,550	1.0%	(57,465)	-65.6%
Repairs & Maintenance	292,477	3.9%	369,450	4.3%	(76,973)	-20.8%
Building Operations	380,716	5.1%	334,308	3.9%	46,408	13.9%
Insurance	132,538	1.8%	161,610	1.9%	(29,072)	-18.0%
General Excise Tax/Use Tax	451,083	6.0%	517,228	6.1%	(66,145)	-12.8%
Printing & Stationary	6,119	0.1%	15,880	0.2%	(9,761)	-61.5%
Office Supplies	32,179	0.4%	31,200	0.4%	979	3.1%
Postage	8,776	0.1%	8,000	0.1%	776	9.7%
Community Relations	38,729	0.5%	78,900	0.9%	(40,171)	-50.9%
Utilities	1,121,491	14.9%	1,272,900	14.9%	(151,409)	-11.9%
Management Fee	370,270	4.9%	373,200	4.4%	(2,930)	-0.8%
Miscellaneous *	33,617	0.4%	75,786	0.9%	(42,169)	-55.6%
Total Operating Expenses	8,066,031	107.5%	9,202,323	107.7%	(1,136,292)	-12.3%
Operating Loss	(3,740,274)		(4,023,667)		283,393	-7.0%
Interest Income	31,166	0.4%	56,400	0.7%	(25,234)	-44.7%
Net Loss	<u>\$ (3,709,108)</u>		<u>\$ (3,967,267)</u>		<u>\$ 258,159</u>	<u>-6.5%</u>
Total Revenues	7,534,618		8,599,696		(1,065,078)	-12.4%
Total Expenses before Fixed Assets	11,243,726		12,566,963		1,323,237	10.5%
Fixed Assets Purchase	215,579		200,000		15,579	7.8%
Total Net Cash Flow	<u>(3,924,687)</u>		<u>(4,167,267)</u>		<u>242,580</u>	<u>-5.8%</u>

* includes license & fees, bank service charge, credit card discount, FFE expense, HTA constructive credit and other miscellaneous

Hawaii Convention Center
Analysis of Operating Revenues & Expenses
Fiscal Year Ending June 30, 2003

The net operating loss for fiscal year ending June 30, 2003 is \$3,709,108, which is \$258,159 (6.5%) better than the budgeted loss of \$3,967,267. The positive variance is in part associated with the transfer of the Sales department expenses the second half of the year to the new Sales & Marketing contract which resulted in a savings of \$258,455.

The total revenues for the fiscal year ending June 30, 2003 (including interest income) are \$7,534,618 which is \$1,065,078 (12.4%) less than the budget of \$8,599,696. Revenues were less than budget due to fewer large offshore events and tentative bookings that were included in the budget that did not materialize.

The total expenses for fiscal year ending June 30, 2003 are \$11,243,726 which is \$1,323,237 (10.5%) better than the budget of \$12,566,963. The variance is mainly a result of less expense related to the shortfall in revenues and lower operating expenses.

Operating Revenue:

- Food & Beverage Revenue had a negative variance of \$282,516 or 5.2% less than budget. Several tentative events that were included in the budget did not materialize, including four Japanese banquets accounting for \$222,000 in gross revenues and the postponement of a National Sales Meeting that was budgeted at \$650,000. This shortfall was offset by several events that exceeded budget.
- Rental Revenue had a negative variance of \$430,099 or 24.8% less than budget. While there were slightly more events at 213 compared to the budget of 202, there were 50% less convention type events which typically generate larger rental revenue.
- Event Revenue which includes in-house services billed such as labor, utilities, telephone, equipment, and other ancillary revenues such as audio visual, internet, and electrical had a negative variance of \$349,529 or 25.6% less than budget. Due to 50% less convention type events as stated above, the mix of business in the center with fewer off-shore convention type events versus smaller local type groups contributed to the shortfall in service revenue.
- Other Revenue which includes employee parking, business center rent, contractor phone rentals, and security commissions had a positive variance of \$23,200 or 83.7% better than budget. HCC/SMG contracted with a security firm to be the exclusive provider for event security. This contract provides the Center with a commission of \$1 per hour of event security that is hired by the client.

Food & Beverage:

- Cost of Goods Sold had a positive variance of \$173,588 or 14.7% better than budget. Due to the client mix, cost of goods sold was slightly better than budget.

- Direct Food & Beverage Expenses had a positive variance of \$13,357 or .6% better than budget. Although there was a positive variance, direct food & beverage expense as a percentage of revenue was slightly higher due to more events that had minimal food & beverage revenues. Normally large conventions and banquet events have lower direct expenses due to the efficiency of labor cost.

Operating Expenses:

- Salaries & Wages had a positive variance of \$482,918 or 13.4% better than budget. The cost savings were a result of several unfilled positions during the year and a savings of \$123,904 from the transfer of the Sales department.
- Payroll Taxes & Benefits had a positive variance of \$136,139 or 13.4% better than budget as a result of the savings related to unfilled positions.
- Contract Labor had a positive variance of \$69,652 or 6.6% better than budget. The decrease in contract labor is mainly a result of the labor associated with events that did not materialize and a new contract with a landscaping company.
- Travel & Entertainment had a positive variance of \$40,487 or 44.1% better than budget. There were some savings in travel as a result of the annual SMG Corporate meeting being held here in Hawaii in February and also a \$9,227 savings from the Sales department.
- Dues & Subscriptions had a positive variance of \$6,632 or 42.4% better than budget. We have ceased our membership to the Hawaii Employers Council for employee training saving \$3,600 on dues and have instead focused our employee training on Hawaiiana and have contracted with the Native Hawaiian Hospitality Associates (NaHHA).
- Employee Training/Relations had a positive variance of \$120 or .5% better than budget. We have established an ongoing training with NaHHA to educate employees on Hawaiian culture and values.
- Computer Expense had a negative variance of \$10,383 or 37.4% higher than budget. As more employees are on the system, there was a need to upgrade the Microsoft exchange server and to purchase server/network back-up software and switches.
- Legal/Professional Fees had a negative variance of \$17,205 or 38.1% higher than budget. There were more fees associated with employee issues and event related legal fees than anticipated. There was also an increase in professional fees as we engaged the consulting services of experts in threat assessments of the building as a result of 9/11 and engaged building consultants for the remediation of the rooftop surface as well as a review and recommendation for the landscaping contract.
- Advertising & Promotion had a positive variance \$57,465 or 65.6% better than budget. The expenses for the second half of the year were absorbed by the new Sales & Marketing contract.
- Repairs & Maintenance had a positive variance of \$76,973 or 20.8% better than budget. As mentioned earlier, there was a savings in the maintenance contract for elevator/escalator.

- Building Operations had a negative variance of \$46,408 or 13.9% higher than budget. As the building is now on its fifth year, there were more building supplies that needed to be purchased such as bulbs for light fixtures as well as the replacement of some of the timelox units in the meeting rooms. In addition, food & beverage small equipments were needed to replace and supplement inventory.
- Insurance had a positive variance of \$29,072 or 18% better than budget. The general liability insurance expense is based on the number of attendance in the building. The overall attendance was less than budget as a result of the mix in business.
- General Excise Tax/Use Tax had a positive of \$66,145 or 12.8% better than budget. HCC/SMG pays general excise tax on reimbursements of expenditures incurred. Use tax is paid on items bought out-of-state from vendors who do not charge or collect State of Hawaii general excise tax.
- Printing & Stationary had a positive variance of \$9,761 and 61.5% better than budget. The printing of the event planners handbook has been deferred as a result of revisions that were made.
- Office Supplies had a negative variance of \$979 or 3.1% higher than budget.
- Postage had a negative variance of \$776 or 9.7% higher than budget as a result of the increase in postage rates.
- Community Relations had a positive variance of \$40,171 or 50.9% better than budget. The savings were a result of these expenses being absorbed by the new Sales & Marketing contract.
- Utilities had a positive variance of \$151,409 or 11.9% better than budget. We are continuing our efforts in energy conversation.
- Management Fee had a positive variance of \$2,930 or .8% better than budget. Total management fee is determined by the management contract between the State of Hawaii and SMG which states that the management fee is a base amount with an annual increment of 4% or the percent increase in the consumer price index (CPI) whichever is lower.
- Miscellaneous expense which includes license & fees, bank service charge, credit card discounts, FFE expense, and HTA constructive credit had a positive variance of \$42,169 or 55.6% better than budget.

Interest Income:

- Interest income had a negative variance of \$25,234 or 44.7% less than budget as a result of lower interest rates. We have since changed our investment strategy and are currently investing in Bank of Hawaii's Pacific Capital U.S Government Trust Fund in order to maximize our investment.

**Hawaii Convention Center
Event Summary
Fiscal Year 2003**

	# of Events	# of Event Days	Attendance	Total Rent
<u>FY 2000 Actual</u>				
Conventions	13	42	80,388	\$ 730,360
Trade Shows	1	3	500	\$ 18,000
Public Gated Shows	4	6	29,100	\$ 75,625
Meetings/Seminars	64	101	17,155	\$ 191,536
Religious	3	5	4,795	\$ 45,735
Banquets	11	13	11,161	\$ 11,971
Testing	2	5	1,230	\$ 9,840
Miscellaneous	4	40	2,350	\$ 21,091
Total FY 2000	102	215	146,679	\$ 1,104,158
<u>FY 2001 Actual</u>				
Conventions	15	60	46,683	\$ 611,200
Trade Shows	9	14	6,843	\$ 48,560
Public Gated Shows	5	9	56,000	\$ 87,285
Meetings/Seminars	75	124	27,610	\$ 187,933
Religious	9	18	11,570	\$ 59,585
Banquets	13	15	14,156	\$ 7,914
Testing	3	5	2,514	\$ 25,849
Concert	1	1	2,000	\$ 8,861
Graduation	2	2	2,472	\$ 10,648
Wedding	2	2	630	\$ -
Miscellaneous	8	18	16,047	\$ 88,738
Cancelled Events	3	0	630	\$ 6,880
Total FY 2001	145	268	187,155	\$ 1,143,453
<u>FY 2002 Actual</u>				
Conventions	13	45	27,239	\$ 373,371
Trade Shows	3	5	1,410	\$ 14,460
Public Gated Shows	18	35	114,887	\$ 243,649
Meetings/Seminars	104	165	40,286	\$ 174,980
Religious	13	25	17,302	\$ 123,115
Banquets	25	30	22,446	\$ 14,028
Testing	4	7	3,988	\$ 25,230
Concert	3	4	3,700	\$ 19,905
Graduation	2	2	1,825	\$ 3,725
Wedding	6	6	1,708	\$ 5,375
Miscellaneous	6	17	11,010	\$ 70,517
Cancelled Events	5	0	0	\$ 66,061
Total FY 2002	202	341	245,801	\$ 1,134,416
<u>FY 2003 Actual</u>				
Concert	3	3	4,190	\$ 25,190
Conventions	11	51	43,092	\$ 516,252
Trade Shows	3	3	3,150	\$ 11,590
Public Gated Shows	15	28	83,245	\$ 169,393
Meetings	134	231	46,187	\$ 286,523
Graduation	3	3	2,400	\$ 5,500
Religious	7	14	12,734	\$ 91,145
Banquets	16	23	16,634	\$ 71,059
Testing	3	5	1,358	\$ 17,625
Festivals	1	3	16,796	\$ 49,750
Weddings	3	3	1,031	\$ 30
Miscellaneous	10	12	6,407	\$ 25,169
Cancelled Events	4	0	0	\$ 40,340
Total FY 2003	213	379	237,224	\$ 1,309,566
<u>FY 2003 Budget</u>				
Conventions	25	77	56,800	\$ 929,716
Trade Shows	4	12	4,000	\$ 84,000
Public Gated Shows	7	30	130,000	\$ 471,885
Meetings/Seminars	120	144	26,400	\$ 153,600
Religious	2	6	6,000	\$ 44,360
Banquets/Foods	42	49	24,900	\$ 36,001
Testing	2	4	3,000	\$ 21,000
Total FY 2003	202	322	251,100	\$ 1,740,562

Hawaii Convention Center/SMG
Rolling Forecast
Fiscal Year Ending June 30, 2004

	Actual Year to Date as of 10/31/03	Projected from 11/01/03 to 6/30/04	Rolling Forecast FYE 6/30/04	Approved Budget FYE 6/30/04	Variance	Actual Prior Year FYE 6/30/03
Operating Revenues:						
Food and Beverage	\$ 3,580,135	\$ 2,859,645	\$ 6,439,780	\$ 5,510,724	929,056	\$ 5,128,604
Rental Income	373,362	1,194,647	1,568,009	1,674,545	(106,536)	1,309,563
Event Revenue	356,473	644,624	1,001,097	877,088	124,009	1,014,357
Other	20,705	35,850	56,555	37,400	19,155	50,928
Total Operating Revenues	<u>4,330,675</u>	<u>4,734,766</u>	<u>9,065,441</u>	<u>8,099,757</u>	<u>965,684</u>	<u>7,503,452</u>
Cost of Goods Sold	572,290	616,412	1,188,702	1,175,974	12,728	1,010,959
Direct F&B Expenses	887,116	1,156,062	2,043,178	2,227,336	(184,158)	2,166,736
Gross Profit	<u>2,871,269</u>	<u>2,962,292</u>	<u>5,833,561</u>	<u>4,696,447</u>	<u>1,137,114</u>	<u>4,325,757</u>
Operating Expenses:						
Salaries & Wages	1,118,873	2,270,872	3,389,745	3,440,820	(51,075)	3,125,122
Payroll Taxes & benefits	292,695	640,907	933,602	945,598	(11,996)	879,003
Contract Labor	323,764	656,498	980,262	989,600	(9,338)	979,779
Travel & Entertainment	11,543	45,000	56,543	69,000	(12,457)	51,293
Due & Subscriptions	6,002	6,401	12,403	15,550	(3,147)	8,998
Employee Training/Relations	3,539	16,808	20,347	28,000	(7,653)	23,280
Computer Expense	10,963	26,668	37,631	41,600	(3,969)	38,171
Legal/Professional Fees	19,246	35,040	54,286	59,210	(4,924)	62,305
Advertising & Promotion	-	5,800	5,800	7,200	(1,400)	30,085
Repairs & Maintenance	98,386	235,232	333,618	364,700	(31,082)	292,477
Building Operations	170,804	277,129	447,933	452,940	(5,007)	380,716
Insurance	49,611	100,752	150,363	154,200	(3,837)	132,538
General Excise Tax/Use Tax	167,233	312,140	479,373	482,737	(3,364)	451,083
Printing & Stationary	4,047	7,800	11,847	13,600	(1,753)	6,119
Office Supplies	11,680	22,050	33,730	34,200	(470)	32,179
Postage	2,116	6,400	8,516	9,500	(984)	8,776
Community Relations	-	-	-	-	-	38,729
Utilities	415,997	838,930	1,254,927	1,269,200	(14,273)	1,121,491
Management Fee	124,781	249,560	374,341	375,000	(659)	370,270
Miscellaneous *	18,724	28,503	47,227	39,195	8,032	33,617
Total Operating Expenses	<u>2,850,004</u>	<u>5,782,490</u>	<u>8,632,494</u>	<u>8,791,850</u>	<u>(159,356)</u>	<u>8,066,031</u>
Operating Profit/(Loss)	<u>21,265</u>	<u>(2,820,198)</u>	<u>(2,798,933)</u>	<u>(4,095,403)</u>	<u>1,296,470</u>	<u>(3,740,274)</u>
Interest Income	6,714	17,500	24,214	24,000	214	31,166
Net Profit/(Loss)	<u>\$ 27,979</u>	<u>\$ (2,802,698)</u>	<u>\$ (2,774,719)</u>	<u>\$ (4,071,403)</u>	<u>\$ 1,296,684</u>	<u>\$ (3,709,108)</u>
Total Revenues	4,337,389	4,752,266	9,089,655	8,123,757	965,898	7,534,618
Total Expenses before Fixed Assets	4,309,410	7,554,964	11,864,374	12,195,160	(330,786)	11,243,726
Fixed Assets Purchase	61,108	138,892	200,000	200,000	-	215,579
Total Net Cash Flow	<u>(33,129)</u>	<u>(2,941,590)</u>	<u>(2,974,719)</u>	<u>(4,271,403)</u>	<u>1,296,684</u>	<u>(3,924,687)</u>

* includes license & fees, bank service charge, credit card discount, FFE expense, HTA constructive credit and other miscellaneous

Hawaii Convention Center
Analysis of Operating Revenues & Expenses
Fiscal Year Ending June 2004 Reforecast

The net operating profit for the first four months ending October 2003 is \$27,979, which is \$1,514,918 better than the projected loss of \$1,486,939. This is due to a National Sales Meeting in September that generated \$810,000 in additional revenues. As of October 2003, we are ahead of revenue projections by \$1,387,024 while our expenses are \$127,894 better than budget.

The forecast for fiscal year ending June 2004 has been revised to a net loss of \$2,774,719, which is \$1,296,684 lower than the budgeted loss of \$4,095,403. This forecast is based on the better than anticipated first four months performance and a successful increase in short-term event bookings that will offset planned events that will not materialize. In addition, total operating expenses for the period has been revised to recognize a reduction of \$330,786 as a result of vacant positions and savings in building operating costs. Fiscal year 2004 is projected to be the most successful year for the Hawaii Convention Center.